

THE BAKER-RAULANG COMPANY

CLEVELAND, OHIO



REPORT TO SHAREHOLDERS

FOR YEAR ENDING DECEMBER 31, 1943



THE BAKER-RAULANG COMPANY

REPORT TO SHAREHOLDERS

Cleveland, O., March 1st, 1944

TO THE COMMON SHAREHOLDERS OF THE BAKER-RAULANG COMPANY:—

We hand you herewith financial statements of your Company for the year 1943, which include Profit and Loss Statement for the same period. Attached to these is a letter from Ernst & Ernst, certified public accountants, reporting on their examination of the Company's accounts.

Our letter to you last October forecast that the results of 1943 operations would compare favorably with those of the preceding year. We believe that prediction has been confirmed. The 1943 allowances for Renegotiation and Federal Taxes have been estimated as closely as possible from the data available. Subject to adjustments of the 1943 accounts due to anticipated renegotiation of our 1943 business, the following comparisons in round figures between the operations and earnings of the years 1942 and 1943 are submitted.

	<u>Net Sales Volumes</u>	<u>Overall Operating Profits</u>	<u>Allowances for Renegotiation and Federal Taxes</u>	<u>Net Earnings*</u>	<u>Postwar Reserves</u>
1942.....	\$6,882,000.	\$1,530,000.	\$1,302,000.	\$229,000.	\$123,000.
1943.....	7,706,000.	1,774,000.	1,520,000.	254,000.	100,000.

*Before provision for postwar reserves.

At the close of 1941 business your Directors established a postwar reserve in the modest amount of \$27,000.00. This was increased during the following two years as above indicated and the total was \$250,000.00 as of December 31, 1943. This reserve is in part funded by the postwar Treasury credits due us in an amount of \$198,000.00 for the years 1942 and 1943. This amount is subject to adjustment after renegotiation proceedings have been completed. While these credits are included in the total net earnings they are not available for use until after the National Emergency has been declared terminated. The source of these credits is, of course, that portion of excess profit taxes paid which is returnable to the Company under the provisions of the Federal Tax Law.

The Profit and Loss Statement shows the division of the sales volume and operating profits between Industrial Truck and Commercial Body Divisions of the Company. The allowances for renegotiation, Federal Taxes, and net earnings and postwar reserves are not so divided.

Throughout the year we have, under the control of the WPB, steadily produced electric industrial trucks for the Government and commercial users, and at the prices frozen as of October 1, 1941. Our production has been somewhat limited by the serious shortage of skilled labor in this area.

Our Body Division has also been steadily employed in the building of special commercial bodies for the Government and as a sub-contractor it has supplied large quantities of parts and units for war purpose vehicles. It has continued to supply some special materials and units as a prime contractor to Government agencies.

While our backlog of orders has decreased during the past months, the volume of business now on our books is in excess of \$3,000,000.00 and the schedule of deliveries undertaken are requiring substantial operations, in both divisions. Thus far we have had few serious cut-backs and cancellations of contracts. The probability of these, however, is constantly increasing and some may be expected during 1944.

Although we have sufficient working capital for our ordinary requirements, we have recently, as a protective measure against dislocation resulting from cancellation of Government contracts, entered into a Bank Revolving Credit Agreement with two Cleveland Banks. This agreement commonly termed a VT Loan provides for borrowing up to a total principal amount of \$2,000,000.00 under the general conditions governing this type of loan.

We have devoted considerable attention to postwar plans in respect to products and production facilities. Your Officers and Directors have under advisement a comprehensive plan looking toward the future integrating of all operations in one factory and the expansion of our industrial truck business to include more gasoline trucks and other material handling equipment products.

Respectfully submitted,

E. J. BARTLETT,

President.

Data For Report To Stockholders
THE BAKER-RAULANG COMPANY, CLEVELAND, OHIO
December 31, 1943

Board of Directors,
The Baker-Raulang Company,
Cleveland, Ohio.

We have examined the balance sheet of The Baker-Raulang Company as of December 31, 1943, and the statements of profit and loss and surplus for the year then ended, have reviewed the system of internal control and the accounting procedures of the Company and, without making a detailed audit of the transactions, have examined or tested accounting records of the Company and other supporting evidence, by methods and to the extent we deemed appropriate. Except that it was not practicable to confirm receivables from United States Government departments, as to which we have satisfied ourselves by means of other auditing procedures, our examination was made in accordance with generally accepted auditing standards applicable in the circumstances and included all procedures which we considered necessary.

Trade receivables were tested by direct communication with recorded customers. Approximately \$750,000.00 of the amount stated for inventories represents the aggregate amount of ledger balances of work in process, stores, etc., which was not supported by counts, weights, or measurements or listing from perpetual records since December 31, 1942. These ledger balances represent accumulations based on the Company's cost procedures followed consistently for a number of years, and include adjustments of differences between perpetual inventory records and physical test counts made during the year. Inventory of service parts at the West 25th Street plant and inventories of raw materials, supplies and sub-assemblies at the West 80th Street plant are based on counts, weights or measurements made by employees of the Company as of December 31, 1943. We were present and observed the procedures followed at the time physical inventories were taken and also made test counts in support of items included in the perpetual inventories. Computations and basis of pricing inventories were also tested by us.

Property, plant, and equipment accounts and related reserves, and surplus accounts were adjusted during the year to conform with the basis used for federal income and excess profits tax purposes. These adjustments include the elimination of appreciation entered on the Company's records subsequent to June 1, 1915, and to the extent that such adjustments affected profit and loss prior to July 1, 1936 (date of allocation of portion of capital surplus to eliminate profit and loss deficit), the net charge was made against capital surplus. The adjustments also include transfer from capital surplus to earned surplus of a loss on land and buildings sold in 1941. Provisions for depreciation and amortization for the year 1943 are based on the adjusted plant and equipment accounts and rates which have been allowed by the Bureau of Internal Revenue. The provisions on this basis are approximately \$15,000.00 less than amounts which would have been charged to operation on the basis used for preceding years.

In our opinion, except that a substantial portion of the inventory is based on ledger balances and not supported by physical counts, the accompanying balance sheet and related statements of profit and loss and surplus present fairly the position of The Baker-Raulang Company at December 31, 1943, and the results of its operations for the year, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year, except for changes in property, plant, and equipment accounts and related reserves, as set forth in the preceding paragraph.

ERNST & ERNST
Certified Public Accountants

Cleveland, Ohio
March 7, 1944

THE BAKER-RAULANG COMPANY

BALANCE SHEET

December 31, 1943

Assets

CURRENT ASSETS

Cash	\$	614,459.75	
Trade accounts receivable, less reserve of \$4,500.00		551,345.38	
Inventories—at lower of cost or market:			
Service parts.....	\$	111,725.24	
Parts and sub-assemblies.....		330,202.27	
Orders in process		525,620.00	
Raw materials and supplies.....		190,667.61	
		<u>\$1,158,215.12</u>	
Less reserves.....		7,211.82	1,151,003.30
			<u>\$2,316,808.43</u>

OTHER ASSETS

Estimated postwar refund of federal excess profits taxes—Note A.....	\$	198,603.39	
Sundry deposits, advances, and receivables..		23,353.40	
Cash on deposit for purchase of Preferred shares—Note B.....		19,226.80	241,183.59
			<u></u>

PROPERTY, PLANT, AND EQUIPMENT—Note C

Land	\$	244,858.71	
Buildings, machinery, and equipment.....	\$	849,625.64	
Less reserves for depreciation.....		614,511.38	235,114.26
		<u></u>	
Emergency facilities	\$	307,187.63	
Less reserves for amortization.....		94,836.05	212,351.58
			<u>692,324.55</u>

PATENTS AND GOOD WILL (nominal amount)

1.00

DEFERRED CHARGES

Tools	\$	34,557.66	
Prepaid insurance, taxes, etc.....		21,883.89	56,441.55
		<u></u>	

Reference is made to notes to financial statements.

\$3,306,759.12

THE BAKER-RAULANG COMPANY

Liabilities, Capital Stock, and Surplus

CURRENT LIABILITIES

Accounts payable:

Trade accounts.....	\$ 201,901.83		
Salaries, wages, and commissions.....	86,393.67		
Unpaid portion of renegotiation refund for the year 1942.....	62,183.89		
Pay roll taxes.....	16,635.57		
Employees war savings bond deductions.....	9,847.99	\$ 376,962.95	

Accrued:

Federal capital stock tax—estimated....	\$ 17,500.00		
Local taxes.....	10,876.97	28,376.97	

Estimated liability for renegotiation refund
and federal taxes on income for the year

1943—Note A\$1,650,000.00

Less U. S. Treasury Notes—Tax Series—purchased and held for payment of taxes...

752,043.30	897,956.70	\$1,303,296.62
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RESERVE

For postwar adjustments and general contingencies

250,000.00

CAPITAL STOCK AND SURPLUS

Capital stock:

Preferred stock, \$5.00 cumulative if earned, par value \$100.00 per share, redeemable at \$105.00 a share and accumulated unpaid dividends:

Authorized 7,500 shares; issued (including shares reserved for exchange) 7,443 shares.

\$ 744,300.00

Less 161 shares purchased for retirement

16,100.00 \$ 728,200.00

Common stock, par value \$1.00 per share:

Authorized 100,000 shares; issued (including shares reserved for exchange) 78,243 shares

78,243.00

\$ 806,443.00

Surplus—Note E:

Capital surplus\$ 526,622.38

Earned surplus—since July 1, 1936..... 420,397.12

947,019.50 1,753,462.50

\$3,306,759.12

THE BAKER-RAULANG COMPANY

Statement Of Surplus

Year ended December 31, 1943

CAPITAL SURPLUS

Balance at January 1, 1943.....	\$ 613,201.71
Add:	
Excess of par value over cost of 161 shares of Preferred stock purchased for retirement.....	7,502.50
	<u>\$ 620,704.21</u>
Deduct:	
Adjustment of property, plant, and equipment accounts and related reserves to U. S. Treasury Department basis—as authorized by the Board of Directors—Note C.....	94,081.83
	<u>BALANCE DECEMBER 31, 1943....</u>
	<u>\$ 526,622.38</u>

EARNED SURPLUS (since July 1, 1936)

Balance at January 1, 1943.....	\$ 586,642.42
Add:	
Net profit for the year—Note A.....	154,615.40
	<u>\$ 741,257.82</u>
Deduct:	
Adjustment of profits for the year 1942 resulting from renegotiation under the War Profits Control Act—Note A:	
Net amount paid or provided for after applicable federal taxes on income.....	\$ 130,000.00
Reduction in estimated postwar refund of excess profits tax.....	52,000.00
	<u>\$ 182,000.00</u>
Dividends paid:	
On Preferred stock—Note D:	
Earned accumulation for prior years.....	\$ 70,690.78
For the year 1943—\$3.75 per share.....	27,911.25
	<u>\$ 98,602.03</u>
On Common stock—\$.10 per share—Note B.....	7,824.30
	<u>106,426.33</u>
Adjustment of property, plant, and equipment accounts and related reserves to U. S. Treasury Department basis—Note C.....	32,434.37
	<u>\$ 320,860.70</u>
	<u>BALANCE DECEMBER 31, 1943....</u>
	<u>\$ 420,397.12</u>

Reference is made to notes to financial statements.

THE BAKER-RAULANG COMPANY

Profit and Loss Statement

Year ended December 31, 1943

	INDUSTRIAL TRUCK DIVISION	COMMERCIAL BODY DIVISION	COMBINED
Net sales	\$4,460,548.74	\$3,245,665.37	\$7,706,214.11
Cost of goods sold.....	2,894,131.28	2,368,893.08	5,263,024.36
	<u>GROSS PROFIT</u>	<u>\$ 876,772.29</u>	<u>\$2,443,189.75</u>
Expenses:			
Sales engineering	\$ 492,818.69	\$ 20,978.01	\$ 513,796.70
Administrative and general.....	105,447.49	62,111.28	167,558.77
	<u>TOTAL EXPENSES</u>	<u>\$ 83,089.29</u>	<u>\$ 681,355.47</u>
	<u>OPERATING PROFIT</u>	<u>\$ 793,683.00</u>	<u>\$1,761,834.28</u>
Other income:			
Interest earned		\$ 6,024.68	
Royalties received		3,877.50	
Net income from rented property.....		2,075.68	
Recovery on accounts and sundry income....		2,276.30	14,254.16
			<u>\$1,776,088.44</u>
Other deductions:			
Provision for postwar adjustments and general contingencies.....		\$ 100,000.00	
Interest expense		2,083.34	
Loss on equipment sold.....		163.23	102,246.57
			<u>\$1,673,841.87</u>
PROFIT BEFORE TAXES ON INCOME AND PROVISION FOR RENEGOTIATION			
Provision for renegotiation liability and federal taxes on income—estimated:			
Provision for the year.....			\$1,650,000.00
Less postwar refund of excess profits tax			134,000.00
			<u>\$1,516,000.00</u>
Adjustment of prior year's provision for federal taxes on income.....			3,226.47
			<u>\$1,519,226.47</u>
	<u>NET PROFIT</u>		<u>\$ 154,615.40</u>
Provisions for depreciation and amortization for the year amounted to \$76,405.15—Note C			
Reference is made to notes to financial statements.			

THE BAKER-RAULANG COMPANY

Notes to Financial Statements

December 31, 1943

Note A—Renegotiation proceedings under the War Profits Control Act for the year ended December 31, 1942, were concluded during the year 1943 and resulted in a gross refund of \$650,000.00, less applicable federal taxes on income. The net cost to the Company amounted to \$182,000.00, consisting of a cash refund of \$130,000.00 and a reduction of \$52,000.00 in postwar refund of federal excess profits tax.

Renegotiation proceedings for the year 1943 have not commenced but the provision for renegotiation refund and federal taxes on income charged against operations for the year, is considered to include a sufficient amount to cover renegotiation refund based on the factors considered in renegotiation proceedings for the year 1942. The estimated postwar refund of excess profits taxes will probably be reduced upon completion of renegotiation proceedings for the year 1943.

Note B—Whenever a cash dividend is paid on Common shares there shall be set aside in a sinking fund for the purchase for retirement of Preferred shares an amount equal to at least one-half but not in excess of the aggregate amount of such dividend. An amount (\$7,824.30) equivalent to the Common stock dividend paid during the year was set aside and there was also appropriated and set aside during the year the amount of \$20,000.00 from the proceeds of a mortgage sold by the Company during that period.

Note C—Property, plant, and equipment is stated at appraised value at June 1, 1915, (with respect to certain land and buildings now owned) plus additions since that date at cost, less reserves for depreciation and amortization based on such costs. Reference is made to comments of Ernst & Ernst regarding adjustment of these accounts during the year ended December 31, 1943.

Note D—Accumulated dividends on Preferred stock at December 31, 1942, and three regular quarterly dividends of \$1.25 each were paid during the year 1943. Amended articles of incorporation filed May 13, 1943, provide that dividends on the Preferred stock, to the extent earned but not in excess of \$5.00 per year, shall be cumulative when not paid on or before October 1st of the year following that in which the same shall have been earned.

Note E—Pending retirement of 161 shares of Preferred stock purchased during the year, surplus is restricted in the amount of \$8,597.50, representing the cost of these shares.



